UNITED STATES
POSTAL REGULATORY COMMISSION
Washington, D.C. 20268-0001

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended December 31, 2015
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from ________to________

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

Washington, D.C.	41-0760000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
475 L'Enfant Plaza, S.W. Washington, D.C.	20260
(Address of principal executive offices)	(ZIP Code)

(202) 268-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of shares of common stock held by non-affiliates as of March 31, 2015: N/A

The number of shares of common stock outstanding as of 2/8/2016: N/A

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNITED STATES POSTAL SERVICE
STATEMENTS OF OPERATIONS
(UNAUDITED)

(in millions)	Three months ended December 31, 2015	Three months ended December 31, 2014
Revenue		
Operating revenue	$ 19,347	$ 18,734
Other revenue	12	27
Total revenue	**19,359**	**18,761**
Operating expenses		
Compensation and benefits	12,735	12,421
Retiree health benefits	2,242	2,184
Workers' compensation	(196)	786
Transportation	1,880	1,798
Other operating expenses	2,341	2,286
Total operating expenses	**19,002**	**19,475**
Income (loss) from operations	**357**	**(714)**
Interest and investment income	6	6
Interest expense	(56)	(46)
Net income (loss)	**$ 307**	**$ (754)**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
BALANCE SHEETS

(in millions)	December 31, 2015	September 30, 2015
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 7,306	$ 6,634
Restricted cash	229	233
Receivables, net	966	930
Supplies, advances and prepayments	186	118
Total current assets	**8,687**	**7,915**
Property and equipment, net	15,490	15,686
Other assets	418	413
Total assets	**$ 24,595**	**$ 24,014**
Current Liabilities:		
Compensation and benefits	$ 2,057	$ 1,899
Retiree health benefits	29,551	28,100
Workers' compensation costs	1,493	1,401
Payables and accrued expenses	1,972	1,853
Deferred revenue-prepaid postage	3,321	3,304
Customer deposit accounts	1,204	1,201
Other current liabilities	1,126	1,053
Current portion of debt	10,100	10,100
Total current liabilities	**50,824**	**48,911**
Workers' compensation costs, noncurrent	15,771	17,410
Employees' accumulated leave, noncurrent	1,979	1,951
Other noncurrent liabilities	1,205	1,233
Noncurrent portion of debt	4,900	4,900
Total liabilities	**74,679**	**74,405**
Net Deficiency:		
Capital contributions of the U.S. Government	3,132	3,132
Deficit since 1971 reorganization	(53,216)	(53,523)
Total net deficiency	**(50,084)**	**(50,391)**
Total liabilities and net deficiency	**$ 24,595**	**$ 24,014**

See accompanying notes to the unaudited financial statements.

UNITED STATES POSTAL SERVICE
STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in millions)	Three months ended December 31, 2015	Three months ended December 31, 2014
Cash flows from operating activities:		
Net income (loss)	$ 307	$ (754)
Adjustments to reconcile net income (loss) to cash provided by operations:		
Depreciation and amortization	427	442
Loss (gain) on disposals of property and equipment, net	15	(20)
Increase in other assets	(5)	(5)
Decrease in noncurrent workers' compensation	(1,639)	(642)
(Decrease) increase in noncurrent deferred appropriations and other revenue	(13)	10
Increase in other noncurrent liabilities	17	20
Changes in current assets and liabilities:		
Receivables, net	(36)	47
Other current assets	(68)	(42)
Retiree health benefits	1,451	1,426
Payables, accrued expenses and other	446	1,837
Deferred revenue-prepaid postage, prepaid box rents and other	11	204
Net cash provided by operating activities	**913**	**2,523**
Cash flows from investing activities:		
Change in restricted cash	4	(4)
Purchases of property and equipment	(275)	(335)
Proceeds from sales of property and equipment	48	5
Net cash used in investing activities	**(223)**	**(334)**
Cash flows from financing activities:		
Issuance of notes payable	2,700	2,700
Payments on notes payable	(2,700)	(2,700)
Payments on capital lease obligations and other	(18)	(15)
Net cash used in financing activities	**(18)**	**(15)**
Net increase in cash and cash equivalents	672	2,174
Cash and cash equivalents at beginning of period	6,634	4,906
Cash and cash equivalents at end of period	**$ 7,306**	**$ 7,080**
Supplemental cash flow disclosures:		
Cash paid for interest	$ 52	$ 49

See accompanying notes to the unaudited financial statements.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Background

On July 1, 1971, the United States Postal Service (the "Postal Service") began operations in accordance with the provisions of the *Postal Reorganization Act,* which established it as an "independent establishment of the executive branch of the Government of the United States." It succeeded the cabinet-level Post Office Department established in 1792. The Postal Service does not receive tax dollars for operating expenses and relies solely on the sale of postage, products and services to fund its operations.

The *Postal Accountability and Enhancement Act*, Public Law 109-435 ("PAEA"), classifies Postal Service products into two broad categories: Market-Dominant and Competitive "products." However, the term "services" is used in this document for consistency with other descriptions of services offered by the Postal Service. These services are sold by approximately 32,000 Post Offices, stations and branches, plus a large network of Contract Postal Units, Community Post Offices, Village Post Offices, commercial outlets which sell postage and other services on the Postal Service's behalf, as well as on its website www.usps.com.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of the U.S. Securities and Exchange Commission ("SEC") Regulation S-X. These financial statements should be read in conjunction with the Postal Service's financial statements for the year ended September 30, 2015 included in its Annual Report on Form 10-K ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 13, 2015, and do not include all information and footnotes which are normally included in the Annual Report. Except as otherwise specified, all references to years are to the fiscal year beginning October 1 and ending September 30, and quarters are quarters within fiscal years 2016 and 2015.

In the opinion of management, the accompanying unaudited interim financial statements reflect all material adjustments, including recurring adjustments, necessary to fairly present the financial position as of December 31, 2015, and the results of operations and cash flows for the three months ended December 31, 2015, and 2014. Operating results for the three months ended December 31, 2015 are not necessarily indicative of the results that may be expected for all of 2016.

Recent Accounting Standards

Accounting Standards Update 2014-09 Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09"). The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. As originally issued, ASU 2014-09 was effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption not permitted.

In July 2015, the FASB voted for a one-year deferral of the effective date of the standard to annual reporting periods beginning after December 15, 2017, with an option that would permit reporting entities to adopt the standard as early as the original effective date. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings or net deficiency at the effective date for existing contracts with remaining performance obligations. The Postal Service is currently evaluating the impact of adopting this standard retrospectively on its financial statements.

Accounting Standards Update 2014-15 Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued Accounting Standards Update 2014-15 *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). The new standard requires an entity to perform interim and annual assessments of its ability to continue to meet obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Postal Service does not believe the adoption of the new standard will have a significant impact on its reported disclosures.

NOTE 2 - LIQUIDITY

The Postal Service generates its cash almost entirely through the sale of postage and other services. It holds its cash with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly-liquid, short-term investments issued by the U.S. Department of Treasury. As of December 31, 2015 and September 30, 2015, the Postal Service held unrestricted cash and cash equivalents of $7.3 billion and $6.6 billion, respectively.

Debt

The Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury, holds all of the Postal Service's debt, which consists of two revolving credit facilities and fixed-rate notes with various maturities. As of both December 31, 2015 and September 30, 2015, the aggregate principal balance of debt outstanding was $15.0 billion, the maximum borrowing amount allowed under the Postal Service's statutory debt ceiling. The Postal Service has reported $15.0 billion in outstanding debt each quarter since September 30, 2012.

The two revolving credit facilities referenced above have interest rates determined by the U.S. Department of Treasury each business day and enable the Postal Service to draw up to $4.0 billion in total. As of December 31, 2015, these facilities were fully drawn and were included in the current portion of debt. These facilities mature on April 19, 2016, and are generally renewed annually.

Liquidity Concerns

The Postal Service is constrained by laws and regulations which restrict its revenue sources, and, as noted above, it has reached the borrowing capacity under its statutory debt ceiling. Available liquidity (cash and short term investments, plus available borrowing capacity) has increased by approximately $5 billion from the reported 2012 low, largely attributable to the temporary exigent surcharge (discussed in greater detail below) which has generated approximately $4.1 billion in incremental revenue since January 2014. Despite this increase in the Postal Service's liquidity, it remains insufficient to support an organization with projected continuing losses and approximately $74 billion in annual operating expenses.

The Postal Service has incurred cumulative net losses of $56.4 billion since the beginning of 2007 through December 31, 2015. As a result of these losses and its liquidity concerns, the Postal Service does not have sufficient cash balances to meet all of its existing legal obligations when due, pay down its debt and make critical investments in its infrastructure that have been deferred in recent years.

Mail Migration to Alternatives

A significant factor contributing to Postal Service losses is the ongoing decline in the volume of *First-Class Mail*, which generates a higher contribution than other mail classes. This decline is largely the result of changes in consumers' and businesses' use of mail resulting from the continuing migration to electronic communication and transactional alternatives, which was exacerbated by the Great Recession. The effect of this decline is compounded by the increase in the number of delivery points, which, when combined with the impact of the reduction in hard-copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from 5.5 pieces in 2007 to 3.8 pieces in 2015, a decline of 31%.

Expiration of Exigent Surcharge

In December 2013, the PRC ruled that the Postal Service could collect a 4.3% exigent surcharge on Market-Dominant services beginning in January 2014, until such time as the exigent surcharge produces $3.2 billion in incremental revenue, or $2.8 billion in contribution, a figure the PRC determined was lost due to the Great Recession's suppression of mail volume. This incremental revenue produced during the period of the surcharge is in addition to revenue the Postal Service would normally produce.

The Postal Service appealed the PRC's decision to the U.S. Court of Appeals for the District of Columbia Circuit (the "Court"), arguing that the PRC attributed to the Great Recession far too little lost mail volume and that the exigent surcharge should remain in effect for a longer period of time. In June 2015, the Court ruled on the appeal and remanded the case back to the PRC for further review. Although the Court largely upheld the PRC's analytical framework, it vacated one key aspect of the methodology for calculating mail volume lost due to the Great Recession and suggested the PRC reconsider another element of its methodology.

On July 29, 2015, the PRC announced that it had authorized the Postal Service to collect an additional $1.4 billion in revenue through the existing exigent surcharge, which now may remain in effect until it produces $4.6 billion in incremental revenue, which is expected to occur in April 2016. As referenced above, as of December 31, 2015, the Postal Service had collected an estimated $4.1 billion in incremental revenue from the surcharge.

The Postal Service has appealed one aspect of the PRC's July 2015 decision, but that will not impact the Postal Service's ability to collect the additional revenue authorized by the PRC. Absent a successful appeal or legislative change, when the exigent surcharge expires in April 2016, the prices of most Market-Dominant services will decline, which will reduce revenue and cash flow by approximately $2 billion per year.

Business Model Challenges/Constraints

The Postal Service continues to incur significant losses, in part due to the PAEA-mandated Postal Service Retiree Health Benefits Fund ("PSRHBF") prefunding requirement. Such a requirement to prefund retiree healthcare obligations is not imposed on most other federal entities or private-sector businesses that offer retiree health benefits. In addition to the $28.1 billion of prefunding payments that were due but not paid during the years 2012 through 2015, the Postal Service accrued expenses of $1.5 billion for the three months ended December 31, 2015, for its required prefunding payment of $5.8 billion due by September 30, 2016. The Postal Service anticipates that it will be forced to default on this payment as well, as it is expected that liquidity on September 30, 2016 will not be sufficient to pay this liability in addition to other payments necessary to continue to fulfill its other statutory obligations, including the obligation to provide universal mail service to the nation.

As of the date of this report, the Postal Service has not incurred any penalties or negative consequences as a result of not making the PSRHBF prefunding payments. In addition to the prefunding requirement, the Postal Service continues to pay the employer share of health insurance premiums for its retirees, which was $792 million for the three months ended December 31, 2015.

With the exception of the exigent surcharge discussed above, Market-Dominant services, which account for approximately 73% of the Postal Service's annual operating revenues, are subject to a price cap based on the CPI-U. While the vast majority of revenues are constrained by the price cap, costs are not statutorily constrained. Contractual obligations granting general wage increases, along with increases in costs for mandatory federal benefits programs, such as retiree health and retirement benefits, have continued to escalate expenses.

Increases in retirement costs and retiree health benefits are expected to add approximately $400 million to 2016 annual expenses. Although 2016 is the final year of statutorily-fixed amounts of prefunding payments, the statute requires that the Office of Personnel Management ("OPM") perform an actuarial valuation no later than 2017 to determine if additional payments into the PSRHBF are required, and if so, OPM must design an amortization schedule under which the Postal Service must fully fund any remaining liability by 2056.

Mitigating Circumstances

The Postal Service's status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual total revenue of approximately $69 billion, a financially-sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that it supports. Disruption of the mail would cause undue hardship to businesses and consumers, and in the event of a cash shortfall, the U.S. government would likely prevent the Postal Service from significantly curtailing or ceasing operations. The Postal Service continues to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges it faces and the legislative changes that are required to restore its financial stability.

NOTE 3 - RELATED PARTIES

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities, which are considered related parties for accounting purposes.

Related-party receivables and advances were $72 million and $100 million as of December 31, 2015, and September 30, 2015, respectively. As discussed in greater detail in *Note 9 - Fair Value Measurement*, the carrying amount of the revenue forgone installment receivable was $418 million and $413 million at December 31, 2015, and September 30, 2015, respectively, and is included within *Other assets* in the accompanying Balance Sheets.

As discussed in greater detail in *Note 2 - Liquidity*, the Postal Service's debt, borrowed from the FFB, was $15.0 billion as of December 31, 2015, and September 30, 2015. Excluding the $10.1 billion current portion of debt at each period end, related-party current liabilities, which include the PSRHBF obligations discussed in *Note 7 - Health Benefits Plans,* were $31.6 billion and $29.9 billion as of December 31, 2015, and September 30, 2015, respectively. Excluding the $4.9 billion noncurrent portion of debt at each period end, related-party noncurrent liabilities were $15.8 billion and $17.5 billion as of December 31, 2015, and September 30, 2015, respectively.

Related-party operating revenue was $321 million and $254 million for the three months ended December 31, 2015, and 2014, respectively. These items are included within *Operating revenue* in the accompanying unaudited Statements of Operations.

Related-party operating expenses were $4.5 billion and $4.4 billion for the three months ended December 31, 2015, and 2014, respectively. These items are included within *Operating expenses* in the accompanying unaudited Statements of Operations.

Related-party interest income, either imputed on the revenue forgone installment receivable or generated on cash equivalents held with the Federal Reserve Bank of New York or short-term investments in U.S. Treasury instruments, was $6 million for each of the three months ended December 31, 2015, and 2014. These items are included within *Interest and investment income* in the accompanying unaudited Statements of Operations.

Related-party interest expense, incurred on debt issued to the FFB, was $47 million and $45 million for the three months ended December 31, 2015, and 2014, respectively. These items are included within *Interest expense* in the accompanying unaudited Statements of Operations.

NOTE 4 - PROPERTY PLANT AND EQUIPMENT

Assets within *Property and equipment, net* in the accompanying Balance Sheets are recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during both the three months ended December 31, 2015, and 2014 was not significant. Assets within *Property and equipment, net* are depreciated over estimated useful lives that range from 3 to 40 years using the straight-line method.

Assets classified as held for sale were approximately $48 million and $65 million as of December 31, 2015, and September 30, 2015, respectively, and are included within *Property and equipment, net* in the accompanying Balance Sheets. Impairment charges were de minimis for the three months ended December 31, 2015 and 2014. Depreciation and amortization expense was $427 million and $442 million for the three months ended December 31, 2015, and 2014, respectively. These items are included within *Other operating expenses* in the accompanying unaudited Statements of Operations.

NOTE 5 - CONTINGENCIES

Contingent liabilities of the Postal Service consist primarily of claims and lawsuits resulting from labor, employment, environmental matters, property damage claims and injuries on Postal Service properties, and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If a claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Any pre-existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates.

Based on available information, the Postal Service has made adequate provision for probable losses arising from all claims and lawsuits. The current portion of the contingent liability was $132 million at December 31, 2015, and September 30, 2015, and is included within *Payables and accrued expenses* in the accompanying Balance Sheets. The noncurrent portion of this liability was $583 million and $594 million at December 31, 2015, and September 30, 2015, respectively, and is included within *Other noncurrent liabilities* in the accompanying Balance Sheets.

As of December 31, 2015, contingent liabilities consisted of $630 million associated with labor and employment matters, $47 million with asset retirement obligations, $34 million with tort matters and $4 million with contractual matters, for a total of $715 million. As of September 30, 2015, contingent liabilities consisted of $637 million associated with labor and employment matters, $47 million with asset retirement obligations, $38 million with tort matters and $4 million with contractual matters, for a total of $726 million.

In addition to the amounts accrued in the financial statements, the Postal Service also has claims and lawsuits which it deems reasonably possible of an unfavorable outcome, which ranged in amount from $175 million to $925 million at December 31, 2015, and $185 million to $686 million at September 30, 2015. No accruals for these reasonably possible losses have been recorded in the financial statements.

The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its financial condition or operations.

NOTE 6 - RETIREMENT PLANS

The majority of employees participate in one of two U.S. government pension programs, the Civil Service Retirement System ("CSRS") and the Federal Employees Retirement System ("FERS"), which are administered by OPM. Each employee's participation in either plan is based on the starting date of employment with the Postal Service or other U.S. government entity. OPM administers these plans.

As government-sponsored benefit plans, the CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Likewise, because the Postal Service cannot direct the costs, benefits or funding requirements of these plans, it accounts for program expenses under multiemployer plan accounting rules.

The Postal Service records contributions to the plans as an expense in the period in which each contribution is due. As determined by OPM, the Postal Service's contribution rates for most FERS employees were 13.7% and 13.2% of base salary for the three months ended December 31, 2015, and 2014, respectively, during those periods.

PAEA suspended the Postal Service's contributions to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code. In 2017, OPM will determine whether additional funding is required for the benefit of the Postal Services' CSRS retirees. As a result, the Postal Service's employer contribution rate for CSRS was zero for the three months ended December 31, 2015, and 2014.

Employees may also participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. The Postal Service is required to contribute to the TSP for FERS employees by contributing 1% of basic pay and to match voluntary employee contributions up to an additional 4% of basic pay.

For the three months ended December 31, 2015, and 2014, FERS retirement expenses were $1.7 billion and $1.6 billion, respectively. Retirement expenses are included within *Compensation and benefits* in the accompanying unaudited Statements of Operations.

NOTE 7 - HEALTH BENEFITS PLANS

Nearly all career employees are covered by the Federal Employees Health Benefits ("FEHB") Program, which covers both active and retired employees who meet certain eligibility requirements. The Postal Service also offers healthcare benefits to non-career employees. In addition to administering the program, OPM allocates the cost of funding FEHB to its participating U.S. government employers. The Postal Service cannot direct the costs, benefits or funding requirements of the plans, and therefore accounts for program expenses using multiemployer plan accounting rules.

Contributions to the plans are recorded as an expense in the period in which the contribution is due. Although the cost for health benefits is determined by OPM, the allocation of health benefit costs between the Postal Service and most of its employees is determined through agreements with Postal Service labor unions.

Active Employees

The Postal Service paid approximately 75% and 76% of FEHB premium costs during the three months ended December 31, 2015, and 2014, respectively. Postal Service employee healthcare expense was $1.2 billion during each of the three months ended December 31, 2015, and 2014. These expenses are included within *Compensation and benefits* in the accompanying unaudited Statements of Operations.

Retirees

Employees who participate in the FEHB for the five years immediately preceding their retirement may receive benefits from the plan during their retirement. The Postal Service is required to pay a portion of retiree health insurance premiums, based on each employee's length of federal civilian service occurring after July 1, 1971, for retirees who participate in the FEHB and who retired on or after that date, and their qualifying survivors. The Postal Service's share of premium costs for retirees and their qualifying survivors is set by law and is not subject to negotiation with its labor unions.

Since 2007, the Postal Service has been required to prefund retiree health benefits by depositing funds into the PSRHBF. Payments are to be made each year through 2016. This prefunding requirement is not imposed on most federal agencies or private sector businesses. The Postal Service has recorded $29.6 billion for the unpaid PSRHBF prefunding requirements as a current liability in *Retiree health benefits* in the accompanying Balance Sheets as of December 31, 2015. This includes payment defaults of $28.1 billion from 2012 through 2015 and a $1.5 billion accrual during the three months ended December 31, 2015, related to the $5.8 billion prefunding payment due by September 30, 2016.

Although PAEA dictates the annual prefunding requirements through 2016, these amounts and the timing of funding could be changed at any time with enactment of a new law or an amendment of existing law. However, given its liquidity concerns, the Postal Service has and will likely be required to default on its 2016 prepayment in order to fulfill its other statutory obligations, including the obligation to provide universal mail service to the nation. PAEA contains no provisions addressing a payment default.

The unfunded PSRHBF commitment, including past defaulted amounts and the accrual for future obligations, totaled $29.6 billion as of December 31, 2015, and $28.1 billion as of September 30, 2015, respectively. Although 2016 is the final year of statutorily-fixed amounts of prefunding payments, the Postal Service's share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF beginning in 2017, and the statute requires that OPM perform an actuarial valuation no later than that year to determine if additional payments into the PSRHBF are required. If this is the case, OPM must design an amortization schedule under which the Postal Service will be required to fund the actuarially determined normal cost, plus any required amortization of the unfunded liability over a period of 40 years through 2056.

In addition to the prefunding requirement, the Postal Service continues to pay approximately $3.1 billion annually through 2016 for the employer share of its retiree health insurance premiums. The expenses recorded for employer share of health insurance premiums were $792 million and $759 million for the three months ended December 31, 2015, and 2014, respectively.

NOTE 8 - WORKERS' COMPENSATION

Postal Service employees injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by the Department of Labor's ("DOL") Office of Workers' Compensation Programs, which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service reimburses the DOL for all workers' compensation benefits paid to or on behalf of Postal Service employees plus an administrative fee.

Workers' Compensation Liability

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured and are eligible for benefits. To determine the actuarial valuation of new and existing cases, the Postal Service uses an estimation model that combines four generally-accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked.

To determine the fair value of the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries and the expected trend in future costs. The Postal Service then calculates the amount that would need to be invested at current discount (interest) rates to fully fund the future total cost of claims, and this calculated present value is the fair value of workers' compensation liability.

Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial estimation, new compensation and medical cases, the progression of existing cases and changes in discount and inflation rates. These rates, used to calculate the present value of the future obligation, are updated as of the Balance Sheet date and factored into the model. The inflation rates include long-term cost-of-living adjustment ("COLA") rates for compensation claims and medical rates for medical claims.

The liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the December 31, 2015, liability and related expense by approximately $1.9 billion. Likewise, a 1% decrease in the discount rate would increase the December 31, 2015, liability and related expense by approximately $2.3 billion.

The following table details inflation and discount rates used to estimate the liability as of the dates noted:

	December 31, 2015	September 30, 2015
Compensation claims liability:		
Discount Rate	2.6%	2.4%
Wage inflation	2.6%	2.7%
Medical claims liability:		
Discount Rate	2.6%	2.4%
Medical inflation	5.5%	5.7%

The Postal Service's liability for workers' compensation was $17.3 billion and $18.8 billion at December 31, 2015, and September 30, 2015, respectively. The current portion of the liability was $1.5 billion and $1.4 billion at December 31, 2015, and September 30, 2015, respectively.

Workers' Compensation Expense
The impacts of changes in discount rates and inflation rates, as well as the actuarial valuation of new cases and revaluation of existing cases, which reflects compensation and medical claim payments, are components of total workers' compensation expense as recorded in the accompanying unaudited Statements of Operations. As described above, the Postal Service pays an administrative fee to the DOL, which is also a component of workers' compensation expense. The following table presents the components of workers' compensation expense for the three months ended December 31, 2015, and 2014:

(in millions)	2015	2014
Impact of discount rate changes	$ (402)	$ 816
Actuarial valuation of new cases and revaluation of existing cases	188	(47)
Administrative fee	18	17
Total workers' compensation expense	**$ (196)**	**$ 786**

NOTE 9 - FAIR VALUE MEASUREMENT
The Postal Service defines fair value based on the price that would be received upon sale of an asset or the price that would be paid to transfer a liability between unrelated parties. The carrying amounts of the certain current assets held by the Postal Service, including cash, accounts receivable, accounts payable and accrued expenses, approximate fair value due to their short-term nature. Noncurrent receivables and noncurrent debt are measured using a fair value hierarchy model consisting of *Level 1*, *Level 2* and *Level 3* inputs as defined in authoritative accounting literature. Assets within *Property and equipment, net* are recorded at cost and measured at fair value on a nonrecurring basis if they are determined to be impaired.

For the periods ended December 31, 2015 and September 30, 2015, there were no significant transfers between *Level 1* and *Level 2* assets or liabilities. The carrying values and fair values of the revenue forgone installment receivable, which is included within *Other assets* in the accompanying Balance Sheets, and the *Noncurrent portion of debt*, also in the accompanying Balance Sheets, are presented for disclosure purposes only in the following table:

(in millions)	December 31, 2015		September 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue forgone installment receivable	$ 418	$ 513	$ 413	$ 511
Noncurrent portion of debt	$ 4,900	$ 5,295	$ 4,900	$ 5,394

For its revenue forgone installment receivable, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of the receivable using the interest method, which converts future cash flows to a single discounted amount using an interest rate for similar assets, a *Level 2* input. To determine the fair value of this noncurrent asset, the Postal

Service calculates a net present value of anticipated annual installment payments to be received using a discount rate based on the 20-year Treasury Constant Maturity Rate, which was 2.60% as of December 31, 2015.

ITEM 2 – MANAGEMENT'S DISCUSSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting the financial results, liquidity, capital resources and critical accounting estimates of the United States Postal Service ("Postal Service," "USPS," "we," "our" and "us"). Our results of operations may be impacted by risks and uncertainties discussed here and in our Annual Report on Form 10-K for the year ended September 30, 2015 ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 13, 2015. Such factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated.

Our operating results for the three months ended December 31, 2015, are not necessarily indicative of the results to be expected for the year ended September 30, 2016, and should be read in conjunction with our Annual Report. All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2016 and 2015.

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project" or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

With our mandate to provide universal postal services to the nation, we serve individuals and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the U.S. as well as internationally. Our operations include an extensive and integrated retail, distribution, transportation and delivery network, and we operate as a single segment throughout the U.S., its possessions and territories.

We continue to implement certain strategies to achieve financial stability as well as a reduction in our debt. Strategically we focus on a four-pronged approach to attain profitability:

1. Taking aggressive actions within existing laws to maintain liquidity and reduce the costs of operations to reflect current and future mail volume,
2. Delivering high levels of performance and affordable services,
3. Informing stakeholders during Congressional testimony and industry engagement activities about the changes necessary to our legal and regulatory framework to enable long-term financial sustainability, and
4. Identifying and building innovative products, promotions and capabilities that enable revenue growth and investing prudently in infrastructure necessary to maintain and improve products and services.

We have successfully implemented initiatives that have reduced our costs by billions of dollars while increasing access to services. However, legal restrictions on pricing, service diversification and operations restrict our ability to fully implement our strategic objectives and cover our costs to provide secure, reliable and affordable postal services to the nation.

RESULTS OF OPERATIONS

SUMMARY

The major factors that impact our operating results include overall customer demand, the mix of postal services and contribution associated with those services, volume of mail and packages processed through our network and our ability to manage our cost structure in line with declining levels of mail volume, growth in more labor-intensive Shipping and Packages volume and an increasing number of delivery points.

Three Months Ended December 31, 2015

Operating revenue increased $613 million, or 3.3%, compared to the same period last year. This increase in operating revenue was primarily due to an increase in our Shipping and Packages volume.

Operating expenses decreased $473 million, or 2.4%, compared to the same period last year. This decrease was primarily due to the favorable change in workers' compensation expense of $982 million compared to the same period last year, resulting from higher discount rates and changes in assumptions and actuarial valuation and revaluation of new and existing workers' compensation cases, which affects our workers' compensation liability. This favorable change was offset by increased compensation and benefits expense of $314 million, resulting primarily from an increase in the amount of labor hours used to support higher volumes and an increase in transportation of $82 million.

Our net income was $307 million for the three months ended December 31, 2015, compared to a net loss of $754 million for the same period last year, a change of $1.1 billion. As noted above, this change was a result of increased revenue and a decrease in total operating expenses, driven by a favorable change in our workers' compensation expense.

Our non-GAAP controllable income, defined and described in more detail below, was $1.3 billion for the three months ended December 31, 2015, compared to $1.1 billion for the same period last year. This increase was the result of operating revenue outpacing increases in controllable operating expenses for the period.

Non-GAAP Controllable Income

In the day-to-day operation of our business, we focus on costs that are within our control, including work hours, transportation and other costs. We exclude from our internal analysis the expenses that management cannot control, including expenses related to the mandated prefunding of retirement health benefits, non-cash workers' compensation expense items caused by actuarial revaluation of our workers compensation liability and other fluctuations due to changes in discount rates, and expenses related to the actuarial revaluation of our retirement liabilities. While we consider controllable income, a non-GAAP measure, to be an important measure of operating performance, it should be considered in addition to, but not as a substitute for, net income and other measures of financial performance reported in accordance with GAAP.

The following table details our controllable income for the three months ended December 31, 2015 and 2014:

(in millions)	2015	2014
Net income (loss)	**$ 307**	**$ (754)**
Impact of:		
PSRHBF prefunding expense	1,450	1,425
Change in workers' compensation liability related to fluctuations in discount rates	(402)	816
Other change in workers' compensation liability[1]	(158)	(363)
Actuarial revaluation of retirement liability[2]	60	—
Controllable income	**$ 1,257**	**$ 1,124**

[1] This is a net amount that includes changes in assumptions as well as the valuation of new claims and revaluation of existing claims.

[2] Additional payment obligations are based on actuarial valuations and assumptions to supplement the FERS plan which are to be made in equal installments over the next 30 years.

OPERATING REVENUE AND VOLUME

First-Class Mail and *Standard Mail* continued to provide the majority of our revenue for the three months ended December 31, 2015, despite trends away from hard copy communication to electronic media. *First-Class Mail* generated 39% of our revenue and 39% of our volume, while *Standard Mail* generated 25% of revenue and 53% of volume. Shipping and Packages generated approximately 25% of our revenue despite representing only 3% of our volume.

For the three months ended December 31, 2015, operating revenue was $19.3 billion, an increase of $613 million or 3.3%, compared to the same period last year. Shipping and Packages revenue was $4.8 billion for the three months ended December 31, 2015, an increase of $566 million, or 13.5%, compared to the same period last year, aided by the record number of holiday seasonal packages delivered. Shipping and Packages volume was 1.4 billion pieces for the three months ended December 31, 2015, an increase of 202 million pieces, or 16.2%, compared to the same period last year.

Although revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail, we have been active in addressing growth opportunities in these areas. We continue to concentrate on our customers' needs and have increased our marketing investment, as well as focusing on mail and package innovation. However, we also recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and prices we can offer to our customers and the speed with which we can bring them to market.

As described below, we implemented prices increase on certain Market-Dominant and Competitive services in January 2014 and May 2015. We also implemented price increases on certain Competitive services effective January 2016, which we anticipate may alone cause a decline in our Shipping and Packages volume of 284 million pieces for the remainder of 2016.

The PRC has authorized us to collect an exigent surcharge until it produces $4.6 billion in incremental revenue, a figure the PRC determined was lost due to the Great Recession's suppression of mail volume. We expect this amount to be reached in April 2016. As of December 31, 2015, we had collected an estimated $4.1 billion in incremental revenue from the surcharge. This incremental revenue produced during the period of the surcharge is revenue in addition to revenue the Postal Service would normally produce. Absent a successful appeal of the PRC ruling or legislative change, when the exigent surcharge expires, the prices of most Market-Dominant services will decline, which will reduce revenue and cash flow by approximately $2 billion per year.

The following table summarizes our operating revenue and volume for the three months ended December 31, 2015 and 2014, by each service line:

(in millions)	2015		2014	
	Revenue	**Volume**	**Revenue**	**Volume**
First-Class Mail [1]	$ 7,541	16,402	$ 7,603	16,770
Standard Mail [2]	4,917	22,092	4,979	22,767
Shipping and Packages [3]	4,762	1,447	4,196	1,245
International	807	302	830	273
Periodicals	409	1,455	414	1,507
Other [4, 5]	911	190	712	158
Total revenue and volume	**$ 19,347**	**41,888**	**$ 18,734**	**42,720**

[1] Excludes *First-Class Mail Parcels*.

[2] Excludes *Standard Mail Parcels*.

[3] Includes *Priority Mail*, *Standard Post*, *Parcel Select Mail*, *Parcel Return Service Mail*, *Standard Parcels*, *Package Service Mail*, *First-Class Mail Parcels*, *First-Class Package Service* and *Express Mail*.

[4] Revenue includes *PO Box services*, *Certified Mail*, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, Registered Mail, Stamped Envelopes and Cards, Money Orders and Other services.

[5] Volume includes U.S. Postal Service internal mail and free mail provided to certain groups.

While we continue to experience strong results in our Shipping and Packages business, it represented only 25% of our revenues for the three months ended December 31, 2015, compared to *First-Class Mail*, which represented 39%. For fiscal year 2015, Shipping & Packages would have needed to increase by 260% in order to make up for the impact of the volume losses of *First-Class Mail* for the year. Furthermore, the costs to process and deliver Shipping and Packages services are substantially higher than the costs for *First-Class Mail*.

To address the long-term trend that technological change and the lingering effects of the Great Recession have had on our *First-Class Mail* revenue and volume, we have focused on providing new services, growing e-commerce and implementing marketing campaigns that have helped us grow our Shipping and Packages business. By offering day-specific delivery, improved tracking and text alerts and up to $50 of free insurance on most *Priority Mail* packages, we have demonstrated our responsiveness to our customers.

First-Class Mail

Revenue from *First-Class Mail*, our most profitable service category, decreased $62 million, or 0.8%, for the three months ended December 31, 2015, compared to the same period last year. This decrease in revenue resulted from declines in *First-Class Mail* volume, which declined 368 million pieces, or 2.2%, compared to the same period last year. The most significant factor contributing to this decline in volume was the continuing migration toward electronic communication and electronic transaction alternatives. To a lesser extent, we estimate that the May 2015 price increases caused *First-Class Mail* volume to decline by approximately 75 million pieces for the period. Price increases for all services in the *First-Class Mail* category are generally capped at the rate of inflation because these services are classified by law as Market-Dominant.

Standard Mail

Standard Mail revenue decreased $62 million, or 1.2%, and volume decreased by 675 million, or 3.0%, for the three months ended December 31, 2015, compared to the same period last year. We estimate that the May 2015 price increases contributed to lost *Standard Mail* volume of approximately 134 million pieces for the period.

Standard Mail revenue for the three months ended December 31, 2014, included approximately $200 million in political mail revenue due to the 2014 mid-term elections that fell to approximately $40 million for the three months ended December 31, 2015, as national elections did not take place during that period. Were it not for the political mail from the same period last year, *Standard Mail* revenue and volume would have increased for the three months ended December 31, 2015.

Standard Mail volume is reflective of the cyclical nature of the U.S. economy, although targeted sales advertising campaigns can stimulate demand for these services. Price increases for all *Standard Mail* services are generally capped at the rate of inflation because they are classified by law as Market-Dominant.

Shipping and Packages

The following table summarizes our operating revenue and volume for Shipping and Packages for the three months ended December 31, 2015 and 2014, by each service:

(in millions)	2015		2014	
	Revenue	Volume	Revenue	Volume
Priority Mail[1]	$ 2,344	301	$ 2,217	283
Parcel Select, Parcel Return, Standard Parcels	1,308	696	963	548
First-Class Packages[2]	687	268	599	248
Package Services	226	174	218	157
Priority Mail Express	197	8	199	9
Total Shipping and Packages	**$ 4,762**	**1,447**	**$ 4,196**	**1,245**

[1] Includes Standard Post which is a retail-only product classified as Market-Dominant. Standard Post is priced identically to *Priority Mail* for Zones 1-4 and is functionally equivalent to Priority for those Zones.

[2] Includes *First-Class Mail* Parcels and *First-Class Package Services*.

Shipping and Packages revenue continued to show solid volume growth as a result of our successful efforts to compete in the ground shipping services and "last mile" e-commerce fulfillment markets which include Sunday delivery growth. Volume also experienced end-to-end growth as consumers continued to utilize online shopping, which provided a surge in package volume with a record number of packages delivered during the calendar year 2015 holiday season. To accommodate this surge in volume and avoid service disruptions during the holiday season, we increased Sunday delivery service for some of our customers in limited U.S. markets and added non-career employees for the season in accordance with our labor agreements.

Priority Mail

We continue to improve our *Priority Mail* service to better meet the needs of consumers and business mailers. *Priority Mail* represented approximately 49.2% of our total Shipping and Packages revenue for the three months ended December 31, 2015. The increase was primarily due to the holiday seasonal volume increase and the continued growth of e-commerce.

Parcel Select, Parcel Return, Standard Parcels

Revenue from *Parcel Select*, *Parcel Return* and *Standard Parcels* increased $345 million, or 35.8%, for the three months ended December 31, 2015, compared to the same period last year. This category primarily includes *Parcel Select* revenue of $1.3 billion, and to a lesser extent, *Parcel Returns* revenue of $40 million and *Standard Mail Parcels* revenue of $15 million. These services continue to show strong volume growth of 27.0% for the three months ended December 31, 2015, compared to the same period last year. This growth was driven largely by the continuing growth of e-commerce. However, this category has represented one of our lowest priced services, and as a result, provided a relatively low level of contribution compared to many of our other services.

Package Services

Package Services revenue increased $8 million, or 3.7%, for the three months ended December 31, 2015, compared to the same period last year. Package Services is used for merchandise or bound printed matter, including library and media mail weighing up to 70 pounds. These services had volume growth of 10.8% for the three months ended December 31, 2015, compared to the same period last year, and also benefited from the growth in e-commerce and the holiday seasonal volume increase.

First-Class Packages

First-Class Packages revenue increased $88 million, or 14.7%, for the three months ended December 31, 2015, compared to the same period last year. This category includes *First-Class Package Service*, an under-one-pound commercial package product and *First-Class Parcels*, a Market-Dominant under-13-ounce retail package product. First-Class Package Service offers commercial customers that ship primarily lightweight fulfillment parcels the lowest-priced expedited end-to-end package option in the marketplace. These services had volume growth of 20 million pieces, or 8.1% for the three months ended December 31, 2015, compared to the same period last year.

International Mail

International mail revenue decreased $23 million, or 2.8%, for the three months ended December 31, 2015, although volume increased 29 million pieces, or 10.6%, compared to the same period last year. This is primarily the result of an increase in lower-margin inbound mail, much of that from tracked letter packets and parcels related to trade in international e-commerce, and to a lesser extent, strength in the U.S. dollar compared to other currencies, which generally causes inbound mail volume to increase and outbound mail volume to decrease.

Periodicals

Periodicals revenue decreased $5 million, or 1.2%, and volume decreased by 52 million pieces, or 3.5%, for the three months ended December 31, 2015, compared to the same period last year. Trends in hard-copy reading behavior and shifts of advertising away from print have depressed this segment for years. *Periodicals* is not expected to rebound as electronic content continues to grow in popularity with the public.

Other

Other services include ancillary services such as *Certified Mail*, *PO Box* services, and *Return Receipt* services. Also included in this category are money orders, passport services and our internal U.S. Postal Service mail. Other revenue increased by $199 million, or 27.9%, and volume increased by 32 million pieces, or 20.3%, for the three months ended December 31, 2015, compared to the same period last year. The volume increase was driven by our internal mail, which generates no revenue. The revenue increase was the result of a non-recurring adjustment due to a change in estimate for mail-in-transit which decreased other revenue by $181 million for the three months ended December 31, 2014.

OPERATING EXPENSES

In an effort to align our resources with anticipated types of services and mail volume, we continue to aggressively manage operating expenditures under management's control.

Our mail processing and distribution network was originally designed to provide overnight delivery service of *First-Class Mail* within specified delivery areas, and therefore the network's legacy capabilities are excessive relative to today's mail volume. Consequently, many of our processing and distribution facilities continue to operate at less than full capacity. Our challenge to contain costs is also compounded by the continuing increase in the number of delivery points, which, when combined with the impact of lower hard copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.8 pieces in 2015, a reduction of approximately 31%.

Recognizing the issues impacting our business, we began a realignment of our operations in 2013 to reduce costs and strengthen our finances. These operational realignments included reductions in the number of mail processing operations, realignment of retail office hours to match demand, consolidations of delivery routes and reductions in the number of delivery facilities.

In January 2015, we revised our service standards for *First-Class Mail* and began a second phase of mail processing realignments. Of the 82 facilities that we announced in 2014 would be affected by the consolidations, 17 were completely consolidated, 21 were partially consolidated and 44 have seen no consolidation activities. A consolidation is considered partial if some operations that are slated to move, but not all, are consolidated with those of another facility.

In order to further assess operational considerations and to ensure that we continue to provide prompt, reliable and predictable service consistent with our published service standards, we have deferred further consolidations. We anticipate that the remainder of the consolidations associated with this phase of our realignment plan may impact the 21 partially-consolidated facilities plus an additional 44 processing facilities that have been unaffected so far. We will not fully realize the projected cost savings of this consolidation effort until we are able to fully implement it as planned.

Compensation and Benefits

Compensation and benefits expenses consist of costs related to our active career and non-career employees. The following table presents the compensation and benefits expense for the three months ended December 31, 2015 and 2014:

(in millions)	2015	2014
Compensation	$ 9,739	$ 9,560
Retirement	1,706	1,580
Employee health benefits	1,203	1,200
Other	87	81
Total compensation and benefits	**$ 12,735**	**$ 12,421**

Compensation

The increase in compensation expense was primarily due to an increase of approximately 8 million work hours, or 2.8%, compared to the same period last year, due to an increased workload from higher package volumes and an increased number of Sunday deliveries. Many of the additional work hours were attributable to the increased utilization of non-career employees, which increased by approximately 2 thousand employees, or 1.3%, compared to the same period last year. Additionally, the number of career employees increased by approximately 7 thousand employees, or 1.5%, compared to the same period last year, primarily reflecting the conversion of non-career employees to career status. Although these recently-converted career employees are compensated at higher rates than non-career employees, these conversions to career status are at the lower tier career employee rates.

Retirement

The majority of employees participate in one of two U.S. government pension programs based on the starting date of their employment with a U.S. government employer. All expenses of the retirement programs, except for retiree health benefits, are included in compensation and benefits expense. For additional information, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 6 - Retirement Plans*.

Retirement expense increased $126 million, or 8.0%, for the three months ended December 31, 2015 compared to the same period last year. The most significant factor contributing to this increase was the $60 million increase in the supplemental expense related to the actuarial revaluation of our FERS liability that we did not expense until the end of 2015. In September 2015, OPM notified us that our FERS account for our retirees was underfunded by $3.6 billion as of September 30, 2014. To fund this supplemental liability, OPM directed us to make additional payments to FERS of $241 million per year for 30 years beginning in 2015, and as a result, we accrued $60 million for three months ended December 31, 2015, for this obligation. Because OPM did not provide notification until September 2015, we expensed the full-year amount in our fourth quarter 2015 financial statements. As of the date of this report, we have not paid any of this obligation.

Also contributing to the increase in retirement expense was the increase in the number of employees who participated in FERS and the increase in our employer contribution rate from 13.2% to 13.7% of basic pay for most participants. The contribution rate increase became effective in October 2015, and is expected to increase our annual retirement expense by approximately

$150 million. This government-wide increase, determined by the OPM, underscores the need for USPS-specific calculations of our retirement liabilities based on the demographics and economic assumptions of our workforce, as we estimate that using the government-wide population of participants would result in higher expenses than using only USPS-specific participants.

Employee Health Benefits

Health benefits expense increased $3 million, or 0.3%, for the three months ended December 31, 2015, essentially unchanged from the same period last year. Our share of healthcare premiums for our employees represented 75% and 76% of the total healthcare premium cost for the three months ended December 31, 2015 and 2014, respectively, consistent with our contractual agreements, but the effects of this decrease were offset by a higher number of employees receiving health benefits and higher premium costs.

Retiree Health Benefits

We participate in federal employee benefit programs for retirement, health and workers' compensation benefits. Under PAEA, we are obligated to fully fund the employer's portion of the established health and retirement benefits of retirees and our current employees (as discussed in *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 7 - Health Benefits Plans and Note 2 - Liquidity)*. The components of retiree health benefits expense for the three months ended December 31, 2015 and 2014 were as follows:

(in millions)	2015	2014
Accrual for prefunding payment to PSRHBF	$ 1,450	$ 1,425
Employer premium expense	792	759
Total retiree health benefits expense	**$ 2,242**	**$ 2,184**

Retiree health benefits expense increased $58 million, or 2.7% for the three months ended December 31, 2015, compared to the same period last year. The increase is due to higher employer premiums for retiree health benefits, which increased employer health premium expense by $33 million, or 4.3%, for the period. Additionally, the quarterly accrual for the PSRHBF increased by $25 million, or 1.8%, compared to the same period last year due to the mandated annual prefunding amount due September 30, 2016, which increases by $100 million to $5.8 billion from $5.7 billion for the prior year.

Under PAEA, we continue to pay the premiums for our retirees participating in the Federal Employees Health Benefits ("FEHB") program until September 30, 2016, and we continue to expense these payments during the year they become due. Retiree health benefits premium costs are primarily impacted by the number of retirees and survivors receiving health benefits, the mix of plans selected by retirees, the premium costs of those plans, and the portion of premium costs allocated to the U.S. government for retiree service prior to 1971. As of December 31, 2015, approximately 490,000 of our retirees participated in the plan, an amount essentially unchanged compared to the same period last year.

These costs are reflected as *Retiree health benefits* in the accompanying unaudited Statements of Operations, and consist of payments to OPM for our share of FEHB retiree premiums currently paid, plus accrued prefunding payments to the PSRHBF. Because the amounts scheduled to be paid into the PSRHBF are set by legislation, the Postal Service retiree health expense may represent more than the full normal cost of the benefits earned by Postal Service employees.

Workers' Compensation

Our workers' compensation expense reflects the impacts of changes in discount and inflation rates, as well as the actuarial valuation of new workers' compensation cases and revaluation of existing ones. We reimburse the DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee.

The impact of discount rate changes on workers' compensation expense for the three months ended December 31, 2015, reduced workers' compensation expense by $402 million this year compared to an increase in workers' compensation expense of $816 million for the same period last year, a net change of $1.2 billion. These changes are the result of economic activity outside of management's control.

The actuarial valuation of new and existing cases increased workers' compensation expense by $188 million for the three months ended December 31, 2015, compared to a decrease of $47 million for the same period last year, a net change of $235 million. Changes in actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial estimation, new compensation and medical cases, the progression of existing cases and updated cost-of-living adjustment ("COLA") assumptions, which are largely outside of management's control. The overall decrease in workers' compensation expense was also impacted by lower compensation claim payments.

Under FECA, workers' compensation claims for many types of injuries cannot be settled through lump-sum payments, and in some instances with regard to those claims, compensation may be paid over many years. Federal law grants COLA adjustments to those claims, and these factors result in substantially higher costs to us than would likely result if we managed our own claims. Additionally, since we do not manage the FECA program, we have no ability to control the significant administrative costs associated with managing the claims and payments process.

Transportation

The components of transportation expense for the three months ended December 31, 2015 and 2014 are as follows:

(in millions)	2015	2014
Highway	$ 1,066	$ 982
Air	597	564
International	201	237
Other	16	15
Total transportation expenses[1]	**$ 1,880**	**$ 1,798**

[1] Transportation expense includes only the costs we incur to transport mail and other products between our facilities and does not include actual delivery costs to final destination points, which costs are included within *Other operating expenses*.

Highway and air transportation increased primarily due to the increase in Shipping and Packages volume during the seasonal holiday period. These increased costs were partially offset by an approximately 32% reduction in average diesel fuel prices, affecting our highway network, and an approximately 43% reduction in average jet fuel prices, affecting our air network. International transportation expenses decreased primarily due to a decline in *Priority Mail International* and *Priority Mail Express International* volumes.

Other Operating Expenses

The following table details other operating expenses for the period ended December 31, 2015 and 2014:

(in millions)	2015	2014
Supplies and services	$ 674	$ 671
Depreciation and amortization	427	442
Rent and utilities	393	406
Vehicle maintenance service[1]	254	269
Information technology and communications	173	159
Rural carrier equipment maintenance	130	143
Miscellaneous other	290	196
Total other operating expenses	$ 2,341	$ 2,286

[1] Includes fuel costs for delivery routes.

LIQUIDITY AND CAPITAL RESOURCES

We held unrestricted cash and cash equivalents of $7.3 billion and $6.6 billion as of December 31, 2015, and September 30, 2015, respectively. Our average daily cash balance during the three months ended December 31, 2015, was $7.4 billion, which represents approximately 27 days of operating cash. We define days of cash available as unrestricted cash divided by estimated cash disbursements per business day (usually 251 cash disbursement days per year).

CASH FLOW ANALYSIS

Although our cash balances have increased, they remain insufficient to support an organization with approximately $74 billion in annual operating expenses. Our operations will require significant capital investment over the next few years to modernize and improve our processing and delivery infrastructure in order to be able to continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation. Furthermore, given our inability to raise cash through the issuance of additional debt, our current level of available liquidity may be insufficient to support our operations in the event of another significant downturn in the U.S. economy.

Operating Activities

Cash provided by operating activities decreased by $1.6 billion, or 63.8%, for the three months ended December 31, 2015, compared to the same period last year. This decrease is primarily attributable to a reduction in compensation and benefits liability due to the cash disbursement on December 31, 2015 for payroll, compared to the prior year when the cash disbursement for the same payroll period occurred during the first week of January 2015.

Exigent Surcharge

As described previously in *Operating Revenue and Volume*, we have been collecting an exigent surcharge recorded as operating revenue on Market-Dominant products since January 2014, and will continue to do so until such time as we recover $4.6 billion of incremental revenue from the exigent surcharge. When the exigent surcharge expires, which we believe will take place during April of 2016, absent legislative change, the prices of most Market-Dominant products will decline, which will reduce our annual operating revenue and cash flow by approximately $2 billion.

May 2015 Price Increase

On May 7, 2015, the PRC approved price increases and classifications for *Standard Mail*, *Periodicals* and *Package Services*. Previously, the PRC had approved price adjustments for *First-Class Mail* and special services. The average price increases on these Market-Dominant services were slightly below the CPI-U price cap of 1.966%. The price increases for all Market-Dominant services became effective May 31, 2015. We expect these price increases to generate $750 million in annualized revenue.

January 2016 Price Increase

On October 16, 2015 we filed a notice with the PRC of our intent to increase certain Competitive services prices by an average of 9.5%. The PRC approved this plan and the increase went into effect on January 17, 2016. We estimate that this increase will generate an additional $500 million in revenue for the remainder of 2016 and $750 million per year thereafter.

Investing Activities

We invested $275 million in the purchase of property and equipment for the three months ended December 31, 2015, a decrease of $60 million over the same period last year. We currently estimate that cash outlays for capital assets will amount to approximately $1.8 billion in 2016, and as much as an additional $6.9 billion for the period of 2017 through 2020 to fund some of our much needed investment in building improvements, vehicles, equipment and other capital projects. Although our future projections include these capital cash outlays, future cash flow from operations alone may not generate the cash needed for such necessary capital expenditures.

In order to conserve cash, we reduced our capital expenditures by approximately 43% from an annual average of approximately $1.5 billion in years 2009 through 2011 to an annual average of approximately $850 million in years 2012 through 2015. However, as noted above, we have increased our planned capital expenditures in order to address our aging facilities and vehicles and to upgrade our equipment to remain competitive in the marketplace and to ensure that we will be able to continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation.

Our delivery fleet includes approximately 142,000 delivery vehicles that are at least 20 years old and at or near the end of their useful lives. Repair and maintenance costs for these vehicles have risen significantly in recent years. We have deferred facilities maintenance, other than for health and safety reasons, to save cash. Investments in sorting and handling equipment are needed to fully capitalize on business opportunities in the growing package delivery market, and we must also invest in letter sorting equipment that is at or near the end of its useful life.

Financing Activities

Except as described otherwise in this quarterly report, the nature and amounts of our payment obligations under our debt, capital and operating lease agreements, purchase commitments and other liabilities as of December 31, 2015, have not materially changed from those described in our Annual Report.

On September 30, 2012, we reported that we had reached the maximum borrowing amount allowed under our statutory debt ceiling, and we have not increased our debt since then. Our debt is borrowed from the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury, and consists of fixed-rate notes and two revolving credit facilities with various maturities with an aggregate principal balance of $15.0 billion as of December 31, 2015 and September 30, 2015. September 30, 2012, was also when we reported cash balances of $2.3 billion, our lowest annual cash balances reported during the past four years. Our liquidity has slowly increased since this low point.

The two revolving credit facilities have interest rates determined by the U.S. Department of Treasury each business day and enable us to draw up to $4.0 billion in total. As of December 31, 2015 and September 30, 2015, these facilities were fully drawn, had a maturity date of April 19, 2016, and are included in the current portion of debt.

LIQUIDITY OUTLOOK

The Postal Service expects that the PSRHBF amortization payments may total $3.0 billion or more annually, beginning in 2017. In addition, beginning in 2017, OPM is required to devise an amortization schedule to fully fund the Civil Service Retirement System ("CSRS") unfunded liability by 2043. We expect that the CSRS amortization payments will be approximately $1.5 billion per year.

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue legislation to reform our business model and streamline our burdensome regulatory structure. Such changes might include the adoption of USPS-specific economic and demographic assumptions for calculating our pension liabilities, extending the exigent rate surcharge by making it a part of our rate base, and giving us some additional product flexibility.

Additionally, reform is needed to establish a set of healthcare plans within the FEHB that would fully integrate with Medicare for current and future retirees. Such reform would make our retiree health benefits system affordable by virtually eliminating the unfunded liability previously noted. Although we continue to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, we have no assurances that our requests will result in meaningful reform in the foreseeable future.

Our status as an independent establishment of the executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of approximately $69 billion, generated almost entirely through the sale of our services, a financially-sound Postal Service continues to be vital to American commerce.

In the event that circumstances leave us with insufficient cash, we would be required to implement contingency plans to ensure that mail deliveries continue. These measures may require us to prioritize payments to our employees and suppliers ahead of some payments to other U.S. government entities, as has been done in the past. Without structural change to our business model and legislative change, the factors discussed above will continue to negatively impact us resulting in continuing losses and liquidity challenges for the foreseeable future.

LEGISLATIVE UPDATE

Our *Legislative Update* section provides ongoing insights into the legislative and policy processes that may affect us and our operations.

APPROPRIATIONS

The *Military Construction and Veterans Affairs and Related Agencies Appropriations Act, 2016*, ("Public Law 114-113") (H.R. 2029) funding the U.S. government for 2016 included a $55 million payment to the Postal Service Fund for Revenue Forgone for Free Mail for the Blind and Overseas Voting, which will be received in the year intended, rather than in advanced funding. Additionally, $29 million for revenue forgone installment payment was included in the $55 million total, under the *Revenue Forgone Act of 1993*, which authorizes the Postal Service to receive payments annually through 2035 as reimbursement for services provided to other U.S. Government agencies from 1991 through 1998 (See the Annual Report, *Item 8. Financial*

Statements and Supplementary Data, *Notes to Financial Statements*, *Note 12 - Revenue Forgone*). Public Law 114-113 also requires continuation of six-day mail delivery and prohibits any of the appropriated funds from being used to consolidate or close small rural or other small Post Offices.

LEGISLATION

Several bills have been introduced that, if enacted into law, may have an impact on our financial condition. At this time, however, these bills are pending in committee and none has advanced for consideration by the full U.S. Senate or House of Representatives.

BOARD OF GOVERNORS NOMINATIONS

During 2015, the U.S. Senate Committee on Homeland Security and Governmental Affairs voted to advance five nominees to serve on our Board of Governors. The nominees - Mickey Barnett, D. Michael Bennett, Stephen Crawford, James Miller III and David S. Shapira - are awaiting confirmation by the full U.S. Senate.

LEGAL MATTERS AND CONTINGENT LIABILITIES

Our contingent liabilities consist primarily of claims and lawsuits resulting from labor, employment, environmental matters, property damage claims and injuries on Postal Service properties, and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If a claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Any pre-existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates.

Based on available information, we have made adequate provision for probable losses arising from all claims and lawsuits. The current portion of the contingent liability was $132 million at December 31, 2015, and September 30, 2015, and is included within *Payables and accrued expenses* in the accompanying Balance Sheets. The noncurrent portion of this liability was $583 million and $594 million at December 31, 2015, and September 30, 2015, respectively, and is included within *Other noncurrent liabilities* in the accompanying Balance Sheets.

As of December 31, 2015, contingent liabilities consisted of $630 million associated with labor and employment matters, $47 million with asset retirement obligations, $34 million with tort matters and $4 million with contractual matters, for a total of $715 million. As of September 30, 2015, contingent liabilities consisted of $637 million associated with labor and employment matters, $47 million with asset retirement obligations, $38 million with tort matters and $4 million with contractual matters, for a total of $726 million.

In addition to the amounts accrued in the financial statements, we also have claims and lawsuits which it deems reasonably possible of an unfavorable outcome, which ranged in amount from $175 million to $925 million at December 31, 2015, and $185 million to $686 million at September 30, 2015. No accruals for these reasonably possible losses have been recorded in the financial statements.

The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its financial condition or operations.

FAIR VALUE MEASUREMENTS

As required by authoritative accounting literature, certain fair value disclosures for the three months ended December 31, 2015, are contained in *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*. We did not recognize gains as a result of valuation measurements during the three months ended December 31, 2015. All recognized losses have been incorporated into our financial statements as of December 31, 2015. See *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 9 - Fair Value Measurement.*

RELATED PARTY TRANSACTIONS

As disclosed throughout this report, we have significant transactions with other U.S. government entities, which are considered related parties for reporting purposes. For a more detailed description, see *Item 1. Financial Statements*, *Notes to Unaudited Financial Statements*, *Note 3 - Related Parties*.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large organization. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report on Form 10-K for the year ended September 30, 2015. Management discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board of Governors.

RECENT ACCOUNTING STANDARDS

See *Item 1. Financial Statements*, *Notes to Financial Statements*, *Note 1 - Basis of Presentation*, *Recent Accounting Standards* for a description of recently adopted accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business we are exposed to market risks from changes in commodity prices, certain foreign currency exchange rate fluctuations and interest rates. Our commodity price risk consists primarily of exposure to changes in prices for diesel fuel, unleaded gasoline and aircraft fuel for transportation of the mail, and fuel for heating facilities. We have foreign currency risk related to the settlement of terminal dues and transit fees with foreign postal administrations for international mail.

We have not used derivative commodity or financial instruments to manage market risk related to commodities, foreign currency exchange or interest rate fluctuations for debt instruments. Additionally, we do not purchase or hold derivative financial instruments for speculative purposes.

We also have provision in our debt agreements that allow us to prepay our $15 billion debt at any time at a priced determined by the Secretary of the Treasury, based on prevailing interest rates in the Treasury Security market at the time of repayment.

See *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* in the Annual Report for additional information.

ITEM 4. CONTROLS AND PROCEDURES

Management is responsible for the preparation, integrity and fair presentation of our financial statements.

DISCLOSURE CONTROLS

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized, and reported within the time frames specified by PAEA, and that this information is accumulated and communicated to our management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of December 31, 2015. Based upon and as of the date of the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

INTERNAL CONTROLS

We have made no changes in our internal control over financial reporting during the three months ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings affecting us, please refer to *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Legal Matters and Contingent Liabilities* as well as our Annual Report.

ITEM 1A. RISK FACTORS

No material changes have transpired in our risk factors from those disclosed in *Item 1A. Risk Factors* of our Annual Report.

ITEM 6. EXHIBITS

Exhibit Number	**Description**
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

/s/Megan J. Brennan
Megan J. Brennan
Postmaster General and Chief Executive Officer

Date: February 8, 2016

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President

Date: February 8, 2016

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, Megan J. Brennan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (Postal Service);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and
5. The Postal Service's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service's auditors and the audit committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have significant role in the Postal Service's internal control over financial reporting.

Date: February 8, 2016

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, Joseph Corbett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (Postal Service);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;

4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and

5. The Postal Service's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service's auditors and the audit committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have significant role in the Postal Service's internal control over financial reporting.

Date: February 8, 2016

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended December 31, 2015, (the Report), I, Megan J. Brennan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: February 8, 2016

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

In connection with the Quarterly Report of the United States Postal Service (Postal Service) on Form 10-Q for the period ended December 31, 2015, (the Report),I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: February 8, 2016

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President